

**CALIFORNIA STATEWIDE AUTOMATED
WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)**

**Financial Statements
And
Supplemental Information
With
Independent Auditors' Report**

**For the Year Ended
June 30, 2004**

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
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Independent Auditors' Report

To the Governing Board
California Statewide Automated Welfare System
Consortium IV

We have audited the accompanying financial statements of the governmental activities, and major fund of the California Statewide Automated Welfare System Consortium IV (A Joint Powers Authority) as of and for the year ended June 30, 2004, which collectively comprises the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the State Controller's "Minimum Audit Requirements and Reporting Guidelines for California Special Districts." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and its major fund of the California Statewide Automated Welfare System Consortium IV as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2006 on our consideration of California Statewide Automated Welfare System Consortium IV's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise California Statewide Automated Welfare System Consortium IV's basic financial statements. The Reconciliation of Special Districts Financial Transactions Report with Audited Financial Statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the California Statewide Automated Welfare System Consortium IV. The reconciliation of special districts financial transactions report with audited financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Howell & Spafford, LLP

September 12, 2006

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

Statement of Net Assets

June 30, 2004

ASSETS	
Cash in County Treasurer	\$ 174,388
Receivables	
State of California	18,909,258
Consortium member counties	2,540,558
County of San Bernardino - interest	<u>8,501</u>
	21,458,317
Capital assets, net of accumulated depreciation	<u>170,031,045</u>
Total assets	<u>191,663,750</u>
LIABILITIES	
Accounts payable	18,850,021
Due to the County of San Bernardino	312
Non-current liabilities	
Due within one year	2,743,990
Due in more than one year	<u>14,311,802</u>
Total liabilities	<u>35,906,125</u>
NET ASSETS	
Invested in capital assets	155,757,625
Unrestricted	<u>-</u>
Total net assets	<u>\$ 155,757,625</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

Statement of Activities

For The Year Ended June 30, 2004

Expenses	
Service and supplies	\$ 17,255,573
Depreciation	4,985,245
Interest on debt	<u>1,318,466</u>
 Total expenses	 23,559,284
 Program revenues	
Operating grants	12,561,823
Capital grants	<u>59,483,200</u>
 Net program revenues (expenses)	 48,485,739
 General Revenues	
Local revenues - consortium member counties	293,795
Investment income	<u>7,422</u>
	301,217
 Change in net assets	 48,786,956
Net assets, beginning of year, as adjusted	<u>106,970,669</u>
 Net assets, end of year	 <u>\$ 155,757,625</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

Balance Sheet

Governmental Fund

June 30, 2004

Assets

Cash in County Treasurer	\$ 174,388
Receivables	
State of California	18,667,444
County of San Bernardino - interest	<u>8,501</u>
Total assets	<u>\$ 18,850,333</u>

Liabilities and fund balance

Liabilities

Accounts payable	\$ 18,850,021
Due to the County of San Bernardino	<u>312</u>
Total liabilities	<u>18,850,333</u>

Fund balance

Unreserved - undesignated	<u>-</u>
Total liabilities and fund balance	<u>\$ 18,850,333</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balance	\$ -
Long-term receivables used in governmental activities are not financial resources and, therefore are not reported in the funds.	2,540,558
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	170,031,045
Long-term liabilities, including capital leases, and consortium member payables are not due and payable in the current period and therefore are not reported in the funds.	<u>(16,813,978)</u>
Net assets of governmental activities	<u>\$ 155,757,625</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

**Statement of Revenues, Expenditures,
and Changes in Fund Balance - Governmental Fund**

For The Year Ended June 30, 2004

Revenues	
Intergovernmental	\$ 72,045,023
Investment income	<u>7,422</u>
	<u>72,052,445</u>
Expenditures	
Current:	
Service and supplies	17,255,573
Capital outlay	62,023,759
Debt service:	
Principal retirement	1,524,709
Interest	<u>1,318,466</u>
	<u>82,122,507</u>
Excess of revenues over (under) expenditures	(10,070,062)
Other Financing Sources (Uses)	
Proceeds from advance - State of California	293,795
Capital lease agreements	<u>9,776,267</u>
Excess of Revenues and Other Sources	
Over (Under) Expenditures and Other Uses	-
Fund balance	
Balance, beginning of year, as adjusted	<u>-</u>
Balance, end of year	<u>\$ -</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balance	\$ -
Local revenues from consortium member counties are not available and therefore not considered revenues in the current period. However, they are revenue in the statement of activities.	293,795
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.	57,038,514
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	<u>(8,545,353)</u>
Change in net assets of governmental activities	<u>\$ 48,786,956</u>

The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

**Statement of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual - Governmental Fund**

For The Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Intergovernmental	\$ 54,096,000	\$ 53,663,433	\$ 46,114,144	\$ (7,549,289)
Investment income	<u>-</u>	<u>-</u>	<u>43,467</u>	<u>43,467</u>
	<u>54,096,000</u>	<u>53,663,433</u>	<u>46,157,611</u>	<u>(7,505,822)</u>
Expenditures				
Service and supplies	48,039,284	46,491,121	42,155,650	4,335,471
Capital outlay	2,206,614	2,330,899	1,131,548	1,199,351
Debt service, principal and interest	<u>3,850,102</u>	<u>4,841,413</u>	<u>2,843,175</u>	<u>1,998,238</u>
	<u>54,096,000</u>	<u>53,663,433</u>	<u>46,130,373</u>	<u>7,533,060</u>
Excess of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,238</u>	<u>\$ 27,238</u>

The accompanying notes are an integral part of these financial statements.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Reporting Entity

The California Statewide Automated Welfare System Consortium IV (the Authority) was formed in 1998 under the California Government Code Section 6500 et. seq. The Authority includes the counties of San Bernardino, Riverside, Merced and Stanislaus, and was created for the purpose of the design, development, implementation, and on-going operation and maintenance of an automated welfare system to be used by each of the four counties. The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practice within California Joint Powers Authorities. The Authority accounts for its financial transactions in accordance with the policies and procedures included in the "Minimum Audit Requirements and Reporting Guidelines for California Special Districts" issued by the State Controller's Office, Division of Local Government Fiscal Affairs.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows:

Generally accepted accounting principles require that these financial statements present the accounts of the Authority and any of its component units. Component units are legally separate entities for which the Authority is considered to be financially accountable or otherwise has a relationship, which is such that the exclusion of the entity would cause the financial statements to be misleading. Blended component units are considered, in substance, part of the Authority's operations, so the accounts of these entities are to be combined with the data of the Authority. Component units, which do not meet these requirements, are reported in the financial statements as discrete units to emphasize their separate legal status. However, the Authority has determined that it is not financially accountable for, nor has any other relationship with, any other organization, which would require its inclusion in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately, compared to *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority currently has no business-type activities.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues include* 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period. The Authority considers all revenues available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Expenditures are recorded when a liability is incurred, as under the accrual basis of accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Authority reports the following major governmental fund:

General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

By state law, the Authority's Governing Board must approve a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The Authority's Governing Board satisfied these requirements. Amendments were made to the original budget adopted during the year due to changes in funding at the state level.

Formal budgetary integration was employed as a management control device during the year for the budgeted fund. The Authority employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders, contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Cash in County Treasurer

Cash in County Treasurer are funds held by the San Bernardino County Treasurer (County Treasurer). Unrealized gains and losses are included in investment income. The Authority's funds held by the County Treasurer are readily convertible to cash and available for immediate withdrawal and are thus considered to be cash equivalents for financial reporting purposes. In accordance with state requirements, the Authority maintains substantially all of its cash in the County Treasury. The County Treasurer's Statement of Investment Policy is more stringent than required under the California Government Code. At June 30, 2004, the County Treasurer was in compliance with its own policies and California Government Code. The County Treasurer pools these funds with those of other entities in the County and invests the cash.

Capital Assets

Capital assets, which include computers and software, are reported in the government-wide financial statements. The Authority defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of two years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over the estimated useful life of 2-5 years for computers and 3 years for software.

2. Cash in County Treasurer

Cash in County Treasurer is considered an investment in an external investment pool. These funds are reported at market value as determined by quoted market prices in the financial statements of the Authority. The carrying value and market value as of June 30, 2004 was \$181,072 and \$174,388, respectively. Investment income of \$7,422 consisted of investment losses and interest earnings on the cash in the County Treasurer, which amounted to \$(21,833) and \$29,255, respectively for the year ended June 30, 2004.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

3. Reconciliation of Government-wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

Receivable – consortium member counties	\$ <u>2,540,558</u>
Capital assets	\$178,805,339
Accumulated depreciation	<u>(8,774,294)</u>
	<u>\$170,031,045</u>
Advance – State of California	\$ 2,540,558
Capital leases payable	<u>14,273,420</u>
	<u>\$ 16,813,978</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

Local revenue – consortium member counties	\$ <u>293,795</u>
Capital outlay	\$ 62,023,759
Depreciation and amortization	<u>(4,985,245)</u>
	<u>\$ 57,038,514</u>
Capital leases entered into	\$ 9,776,267
Current year advance – State of California	293,795
Principle retirement of capital leases	<u>(1,524,709)</u>
	<u>\$ 8,545,353</u>

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

4. Capital Assets

The following is a summary of the changes in capital assets during the year:

	Balance 7-1-03	Additions	Balance 6-30-04
Computer hardware	\$ 884,350	\$ 38,480	\$ 922,830
Computer hardware under capital leases	6,653,949	9,776,267	16,430,216
Software	10,384,495	1,093,069	11,477,564
Less:			
Accumulated depreciation	(3,052,470)	(3,054,580)	(6,107,050)
Accumulated amortization of capital leases	(736,578)	(1,930,666)	(2,667,244)
	14,133,746	5,922,570	20,056,316
Software development in progress	98,858,785	51,115,944	149,974,729
	<u>\$112,992,531</u>	<u>\$57,038,514</u>	<u>\$170,031,045</u>

5. Non-current Liabilities

Capital lease obligations

The Authority has entered into capital lease obligations for computer hardware with a cost of \$16,430,216. The following is a schedule of the future minimum lease payments under these capital leases as of June 30, 2004:

<u>Years ended June 30,</u>	
2005	\$ 4,595,175
2006	4,595,175
2007	4,488,134
2008	3,668,709
2009	<u>1,752,001</u>
Total minimum obligations	19,099,194
Less amounts representing interest	<u>4,825,774</u>
Present value of minimum obligations	\$ <u>14,273,420</u>

Advances/Interest Due – State of California

The consortium member counties collectively are required to pay 5% of the application development costs of the Statewide Automated Welfare System. Since construction began, the State of California has funded/advanced these costs. However, upon implementation of the system each consortium member will be required to repay the State for these advances. The determination of each consortium member's share is proportionate to the member's individual caseload compared to the total consortium caseload upon execution of the original contract for application development.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

5. Non-current liabilities (Continued)

Advances/Interest Due – State of California (Continued)

Consortium members must begin repayment twelve months after implementation of the program and have up to four years to repay all amounts due to the State of California. The interest earned on excess funds due to the State of California will be repaid during fiscal year ending June 30, 2007.

As of June 30, 2004 amounts due the State of California are as follows:

<u>For the Years Ended June 30,</u>	<u>Advances</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 92,259	\$ 21,342	\$ 113,601
2002	1,545,528	121,160	1,666,688
2003	608,976	70,057	679,033
2004	<u>293,795</u>	<u>29,255</u>	<u>323,050</u>
	<u>\$2,540,558</u>	<u>\$241,814</u>	<u>\$2,782,372</u>

The following is a summary of the changes in non-current liabilities during the year:

	<u>Capital Lease Obligations</u>	<u>Advance/Interest due State of California</u>	<u>Total</u>
Balance at July 1, 2003	\$ 6,021,862	\$ 2,459,322	\$ 8,481,184
Additions	9,776,267	323,050	10,099,317
Retirements	<u>(1,524,709)</u>	<u>-</u>	<u>(1,524,709)</u>
Balance at June 30, 2004	\$ <u>14,273,420</u>	\$ <u>2,782,372</u>	\$ <u>17,055,792</u>
Due within one year	\$ 2,743,990	\$ -	\$ 2,743,990
Due in more than one year	<u>11,529,430</u>	<u>2,782,372</u>	<u>14,311,802</u>
Total	\$ <u>14,273,420</u>	\$ <u>2,782,372</u>	\$ <u>17,055,792</u>

Letters of credit

In accordance with the agreement with the State of California, the Authority also has letters of credit for \$5,000,000 and \$350,000 with Bank of America and JP Morgan Chase, respectively, secured by Accenture and First Data Government Solutions (Formerly GovConnect), respectively, which are vendors of the Authority. The Authority had no outstanding balance on the letter of credit as of June 30, 2004.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

6. Related Party Transactions

The County of San Bernardino (the County) provides controllership responsibilities for the Authority at a specified rate per transaction. Total amounts paid and due the County for these services was \$267 and \$312, respectively at June 30, 2004.

7. Budget/GAAP Reconciliation

The budget as reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is reported using the cash basis method of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). This method does not recognize receivables, payables, capital lease payments as a reduction of debt service and interest expense, or the capitalization of certain costs related to software development. A reconciliation of the Budget Basis to the Statement of Revenues, Expenditures and Changes in Fund Balance is as follows:

	<u>Budget Basis</u>	<u>Actual</u>	<u>Change</u>
<u>Intergovernmental revenues</u>			
Conversion from cash basis to accrual basis	\$46,114,144	\$72,045,023	\$25,930,879
<u>Investment income</u>			
Conversion from cash basis to accrual basis and fair market value adjustment	43,467	7,422	(36,045)
<u>Service and supplies</u>			
Conversion from cash basis to accrual basis and reclassification to capital expenditures and debt service	(42,155,650)	(17,255,573)	24,900,077
<u>Capital outlay</u>	(1,131,548)	(62,023,759)	(60,892,211)
<u>Debt service</u>			
Principal	(1,524,709)	(1,524,709)	-
Interest	(1,318,466)	(1,318,466)	-
Proceeds from advance – State of California	-	293,795	293,795
Capital lease agreements	-	<u>9,776,267</u>	<u>9,776,267</u>
Net change budget basis to GAAP basis	\$ <u>27,238</u>	\$ <u>-</u>	\$ <u>(27,238)</u>

8. Commitments & Contingencies

The Authority contracts with a single vendor for a majority of its expenditures, related to the design, development, implementation, maintenance and operation of the new welfare automated integrated system. The Authority disburses funds to the contractor based on monthly expenditure and performance reports received from the contractor.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

Notes to Financial Statements

8. Commitments & Contingencies (Continued)

Payments under the contract are contingent upon approval and acceptance by the Authority and appropriate state and federal agencies.

In addition, payments under the contract are contingent upon the availability of county, state and federal funding. If funding to make payments under the terms of the contract is not forthcoming from the state legislature or the federal government for the project, or is not allocated or allotted to the Authority by the State Department of Finance for payment in the current or any future fiscal period, then the obligations of the Authority to make payments after the effective date of such non-allocation or non-funding will cease and terminate. The total future commitment under the contract is \$392,546,098 that is allocated for project deliverables, including planning development, installation, training and management of the project, equipment and third party software, maintenance and operations and facilities leasing.

9. Prior Period Adjustment

During the year ended June 30, 2004, the Authority discovered that it had failed to account for the recognition of the consortium member counties' 5% match of application development costs and interest earned on excess funds. The match has been advanced by the State of California until each county implements the system. The interest earned on excess funds is due back to the State of California in accordance with federal regulations. The effect of the correction of the error for the member counties' match was to increase advances for all previous years by \$2,246,763, and for the year ended June 30, 2003 by \$608,976. This error had a similar effect on the statement of activities by increasing consortium member revenues by the same amounts. The effect of the correction of the error for interest earned on excess funds in previous years was to increase amounts due to the State of California by \$212,559. As of June 30, 2004 the Authority has amounts due from consortium member counties of \$2,540,558 for all years and advances and interest owed to the State of California of \$2,782,372.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2004

Program Name	Federal Catalog Number	Program Expenditures
<u>Passed through the State of California</u>		
U.S. Department of Health and Human Services		
Temporary Assistance to Needy Families	93.558	\$ 36,689,928
KinGAP	93.558	93,659
Foster Care Title IV-E	93.658	1,521,159
Medical Assistance Program	93.778	<u>16,900,075</u>
Total Department of Health and Human Services		<u>55,204,821</u>
 U.S. Department of Agriculture		
Food Stamp Administration	10.561	<u>16,292,660</u>
Total Department of Agriculture		<u>16,292,660</u>
Total federal programs		<u>\$ 71,497,481</u>

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting.
The information in this schedule is presented in accordance with the requirements of OMB Circular A-133,
Audits of States, Local Governments, and Non Profit Organizations.

Reconciliation of the Schedule of Expenditures of Federal Awards to intergovernmental revenues on the Statement
of Revenues, Expenditures and Changes in Fund Balance:

Total federal programs	\$ 71,497,481
State grants	<u>547,542</u>
Intergovernmental revenues	<u>\$ 72,045,023</u>

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)

**Reconciliation of Special Districts Financial Transactions Report
with Audited Financial Statements**

June 30, 2004

	<u>General and Special Revenue Funds</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>
June 30, 2004, per Special Districts Financial Transactions Report governmental fund type fund balance	\$ -	\$ 17,922,793	\$ 4,982,432
To reclassify current year fixed asset additions		1,131,549	
To report current year capital leases		9,776,267	9,776,267
To reclassify additional current year capital lease principal payments			(485,279)
To report prior years advances from State of California			2,246,764
To report current year advance from State of California			293,795
To report interest due the State of California			241,813
To reclassify software development in progress	-	<u>149,974,729</u>	-
June 30, 2004, per audited financial statements	<u>\$ -</u>	<u>\$ 178,805,338</u>	<u>\$ 17,055,792</u>



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

Licensed by the California Board of Accountancy
Member: American Institute of Certified Public Accountants

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Governing Board
California Statewide Automated Welfare System Consortium IV

We have audited the financial statements of the California Statewide Automated Welfare System Consortium IV as of and for the year ended June 30, 2004 and have issued our report thereon dated September 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to initiate, record process, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described as item 2004-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2004-3.

This report is intended solely for the information and use of the governing board, management, and federal awarding and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Lowell & Spafford, LLP

September 12, 2006



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**Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133**

To the Board of Directors
California Statewide Automated Welfare System Consortium IV

Compliance

We have audited the compliance of the California Statewide Automated Welfare System Consortium IV with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs are the responsibility of the Council's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in item 2004-3 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding cash management that are applicable to its Department of Health and Human Services major programs. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, California Statewide Automated Welfare System Consortium IV complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the California Statewide Automated Welfare System Consortium IV is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2004-1 and 2004-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described as item 2004-1 is a material weakness.

This report is intended solely for the information and use of the governing board, management, and federal awarding and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Powell & Spafford, LLP".

September 12, 2006

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

Findings and Questioned Costs

For the Year Ended June 30, 2004

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: An unqualified opinion.

Internal control over financial reporting:

Material weaknesses identified? ☒ yes ☐ no

Reportable conditions identified that are
not considered to be material weaknesses? ☒ yes ☐ no

Noncompliance material to financial statements
noted? ☒ yes ☐ no

Federal Awards

Internal control over major programs:

Material weaknesses identified? ☒ yes ☐ no

Reportable conditions identified that are
not considered to be material weaknesses? ☒ yes ☐ no

Type of auditors' compliance report issued? Qualified

Any audit findings disclosed that are required to
be reported in accordance with Section 501(a)
of Circular A-133? ☒ yes ☐ no

Identification of major program:

Identifying Number

Name of Federal Program

CFDA #93.558
CFDA #93.558

Department of Health and Human Services
Temporary Assistance to Needy Families
KinGAP

Dollar threshold used to distinguish between
Type A and Type B programs:

\$2,153,892

Auditee qualified as low-risk auditee?

☒ yes ☐ no

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

Findings and Questioned Costs

For the Year Ended June 30, 2004

Section II – Financial Statement Findings

Internal Control Over Financial Reporting

2004-1 – Management of Financial Reporting (Material Weakness)

Condition and Criteria: During the audit it was discovered that management does not have procedures in place to designate an individual or department responsible for providing and maintaining documentation necessary to complete required financial reporting. This resulted in the late filing of required regulatory reports and delayed the late completion of the audited financial statements.

Context: Not applicable.

Effect: The Authority may be subject to penalties and disallowance of future grant revenues.

Cause: The Authority does not have policies or procedures in place to insure timely completion of required financial reporting.

Recommendation: We recommend that the Authority establish policies and procedures to ensure the proper maintenance of records necessary to complete required regulatory reports and the timely completion of the audit.

Authority's Response: The Authority is currently working with the County of San Bernardino in the establishment of policies and procedures for the proper maintenance of accounting records, to insure timely reporting of financial information.

2004-2 – Approved Time Sheets

Condition and Criteria: During the testing of payroll it was discovered that certain time sheets were not properly approved by supervisory personnel from the County of Merced. OMB Circular A-87 requires that payroll costs charged to a grant be properly approved.

Context: A sample of employees for two months from each of the four member Counties. This amounted to 3 employees from the County of Merced with improper approvals out of a total population of all employees from the 4 member Counties charged to the Authority.

Effect: Certain payroll and benefits charged to grants could be subject to disallowance by the granting agency.

Cause: Oversight on the part of supervisory personnel from the County of Merced.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

Findings and Questioned Costs

For the Year Ended June 30, 2004

2004-2 – Approved Time Sheets (Continued)

Recommendation: We recommend that the County of Merced personnel carefully review time sheets to insure proper approvals.

Authority's Response: The Authority will monitor supporting information supplied by all counties to insure compliance with applicable laws and regulations.

Section III – Federal Award Findings and Questioned Costs

Questioned Costs

U.S. Department of Health and Human Services

Temporary Assistance to Needy Families and KinGAP, CFDA No. 93.558

2004-1 – Management of Financial Reporting (Material Weakness)

See Finding 2004-1. Data Collection Form not filed until September 2006.

Unknown

U.S. Department of Health and Human Services

2004-3 – Cash Management

Condition and Criteria: The Authority is not promptly submitting interest earned on excess funds to the pass-through entity (State of California) or the federal agency in accordance with OMB Circular A-102.

Effect: Time elapsing between the transfer of funds from the State of California or the federal agency to the Authority could be reduced.

\$241,814

Cause: The Authority's current management was not aware of the requirement.

Population and Items Tested: Total interest reported on the Authority's financial statements.

Recommendation: We recommend that the Authority establish policies and procedures to conform to the requirements of OMB Circular A-102.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV

Findings and Questioned Costs

For the Year Ended June 30, 2004

2004-3 – Cash Management (Continued)

Authority's Response: The Authority will monitor interest earned on excess funds, and will submit these funds to the State of California on a quarterly basis.



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To the Governing Board
California Statewide Automated Welfare System
Consortium IV

We have audited the financial statements of the California Statewide Automated Welfare System Consortium IV for the year ended June 30, 2004, and have issued our report thereon dated September 12, 2006. Professional standards require that we provide you with the following information related to our audit:

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America and the State Controller's minimum audit requirements for California Special Districts. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the California Statewide Automated Welfare System Consortium IV are described in Note 1 to the financial statements.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The more significant estimates included in the financial statements of the Authority are grant receivables.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Authority that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed many adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered significant difficulties in obtaining information from management while performing and completing our audit.

This report is intended solely for the information and use of the governing board, management, and others within the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lowell & Spafford, LLP".

September 12, 2006